RF CAPITAL GROUP

EARNINGS RELEASE

RF Capital Reports Second Quarter 2023 Results

Q2 2023 Financial Highlights (vs. Q2 2022)

Revenue

- Fee revenue[1] increased 3% to $64 million
- Fee revenue[1] represented 90% of commissionable revenue, up from 81% last year
- Interest revenue increased 61% due to higher benchmark rates
- Total revenue of $89 million was down 2%
- Insurance revenue was lower because of a single large insurance commission last year but remained high at 4% of total revenue
- Gross margin of $52 million was consistent with the prior year

EBITDA[1]

- Adjusted EBITDA[1] decreased 10% to $15 million, though would have been up by $2 million without the large insurance commission last year
- EBITDA was up by $0.4 million, as transformation costs declined from $2.4 million to $0.4 million, signaling the end of that phase of our journey

AUA[1,2] of $35.8 billion

- Ending AUA[1,2] was up 6% and average AUA[1,2] was up 1%

Balance sheet

- Net working capital[1] of $90 million
- $200 million revolving credit facility, $81 million drawn which is unchanged

Toronto, August 2, 2023 - RF Capital Group Inc. (RF Capital or the Company) (TSX: RCG) today reported revenue of $89 million for the second quarter of 2023, a decrease of 2%. Excluding one large insurance commission in Q2 2022, revenue increased 7% driven by a 3% increase in fee revenue and a 61% increase in interest revenue. Adjusted EBITDA[1] of $15 million was 10% lower than Q2 2022 given our flat gross margin and a 4% increase in Adjusted operating expenses[1] over the period.

1. Considered to be non-GAAP or supplemental financial measures, which do not have any standardized meaning prescribed by GAAP under IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. For further information, please see the “Non-GAAP and Supplemental Financial Measures” section at the end of this press release.
2. Assets under administration (AUA) is a measure of client assets and is common in the wealth management business. AUA represents the market value of client assets managed and administered by Richardson Wealth from which it earns commissions and fee revenue.

Kish Kapoor, President, and Chief Executive Officer, commented, "Our transformation work has strengthened our platform, generated interest in our story, and reduced the risk in our business. It has made our business more profitable and valuable than when we started our journey in 2020. While the share price is not yet aligned, we expect the improving fundamentals of our business will translate into meaningful long-term shareholder value and the share price to follow. With transformation work complete, our story now centers around growth, both within our advisors' practices and through acquisition."

Mr. Kapoor also stated, "The optimism that is being felt across our company is so inspiring. We have every reason to believe we will become the destination for Canada's top advisors and their high-net worth clients."

Q2 2023 – Select Financial Information

The following table presents the Company's financial results for Q2 2023, Q1 2023 and Q2 2022.

	As at or for the three months ended					As at or for the six months ended		
($000s, except as otherwise indicated)	June 30, 2023	March 31, 2023	Increase/ (decrease)	June 30, 2022	Increase/ (decrease)	June 30, 2023	June 30, 2022	Increase/ (decrease)
Key Performance Drivers[1]:								
AUA - ending[2] ($ millions)	35,788	35,965	(0%)	33,841	6%	35,788	33,841	6%
AUA - average[2] ($ millions)	35,880	35,872	0%	35,607	1%	35,876	36,115	(1%)
Fee revenue	64,047	62,532	2%	62,312	3%	126,579	130,202	(3%)
Fee revenue[3] (%)	90	90	(1) bps	81	+880 bps	90	85	+477 bps
Adjusted operating expense ratio[4] (%)	70.9	74.7	(379) bps	67.9	+302 bps	72.8	72.2	+56 bps
Adjusted EBITDA margin[5] (%)	16.9	14.9	+199 bps	18.3	(141) bps	15.9	15.4	+49 bps
Asset yield[6] (%)	0.86	0.86	(1) bps	0.82	+4 bps	0.86	0.84	+2 bps
Operating Performance								
Reported Results:								
Revenue	88,832	87,700	1%	90,753	(2%)	176,532	179,513	(2%)
Variable advisor compensation	37,305	36,095	3%	39,078	(5%)	73,400	79,917	(8%)
Gross margin[7]	51,527	51,605	(0%)	51,675	(0%)	103,132	99,596	4%
Operating expenses[1,8]	36,947	42,647	(13%)	37,493	(1%)	79,594	75,905	5%
EBITDA[1]	14,580	8,958	63%	14,182	3%	23,538	23,691	(1%)
Income (loss) before income taxes	217	(5,649)	(104%)	851	(74%)	(5,430)	(2,326)	133%
Net income (loss) from continuing operations	(1,425)	(5,332)	(73%)	58	n/m	(6,756)	(3,089)	119%
Net income (loss) from discontinued operations[9]	(2,064)	—	n/m	—	n/m	(2,064)	—	n/m
Earnings per common share from continuing operations - diluted[10]	(0.20)	(0.51)	(61%)	(0.11)	82%	(0.71)	(0.55)	31%
Adjusting Items[11]:								
Transformation costs and other provisions (pre-tax)	413	4,101	(90%)	2,415	(83%)	4,514	3,958	14%
Amortization of acquired intangibles (pre-tax)	3,263	3,263	—	3,263	—	6,525	6,525	—
Transformation costs and other provisions (after-tax)	306	3,039	(90%)	1,554	(80%)	3,345	2,695	24%
Amortization of acquired intangibles (after-tax)	2,398	2,398	—	2,398	—	4,796	4,797	(0%)
Adjusted Results[1]:								
Operating expenses[8]	36,533	38,546	(5%)	35,078	4%	75,080	71,947	4%
EBITDA	14,993	13,059	15%	16,597	(10%)	28,052	27,649	1%
Income (loss) before income taxes	3,892	1,715	127%	6,529	(40%)	5,607	8,158	(31%)
Net income (loss)	1,279	105	n/m	4,010	(68%)	1,385	4,403	(69%)
Adjusted earnings per common share - diluted[10]	0.01	(0.08)	(117%)	0.19	(93%)	(0.06)	0.14	(143%)
Select balance sheet information:								
Total assets	1,518,918	1,640,757	(7%)	2,474,722	(39%)	1,518,918	2,474,722	(39%)
Term debt	110,922	110,922	—	110,922	—	110,922	110,922	—
Shareholders' equity	336,310	340,443	(1%)	350,521	(4%)	336,310	350,521	(4%)
Net working capital[1]	90,019	88,407	2%	103,646	(13%)	90,019	103,646	(13%)
Common share information:								
Book value per common share ($)	14.20	14.45	(2%)	15.01	(5%)	14.20	15.01	(5%)
Closing share price ($)	9.44	12.33	(23%)	14.37	(34%)	9.44	14.37	(34%)
Common shares outstanding[10] (millions)	15.8	15.8	(0%)	15.9	(1%)	15.8	15.9	(1%)
Common share market capitalization ($ millions)	149	195	(24%)	228	(35%)	149	228	(35%)

1. Considered to be non-GAAP or supplemental financial measures, which do not have any standardized meaning prescribed by GAAP under IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. For further information, please see the "Non-GAAP and Supplemental Financial Measures" section of this press release.
2. AUA is a measure of client assets and is common in the wealth management business. It represents the market value of client assets managed and administered by us.

3. Calculated as fee revenue divided by commissionable revenue. Commissionable revenue includes Wealth management revenue and commissions earned in connection with the placement of new issues and the sale of insurance products.
4. Calculated as adjusted operating expenses divided by gross margin
5. Calculated as Adjusted EBITDA divided by revenue
6. Calculated as wealth management revenue plus interest on cash divided by average AUA
7. Calculated as revenue less advisor variable compensation. We use gross margin to measure operating profitability on the revenue that accrues to the Company after making advisor payments that are directly linked to revenue.
8. Operating expenses include employee compensation and benefits, selling, general, and administrative expenses, and transformation costs and other provisions. Adjusted operating expenses are calculated as operating expenses less transformation costs and other provisions.
9. In Q2 2023 we recorded an increase in legal provision related to the 2019 sale of our capital markets business to Stifel Nicolaus Canada Inc. See Note 14 to the Second Quarter 2023 Financial Statements.
10. In 2022, we consolidated our common shares at a 10:1 ratio. Prior period common share information has been adjusted to reflect this consolidation.
11. For further information, please see "Items of Note" of this press release.

Preferred Share Dividend

On August 2, 2023, the board of directors approved a cash dividend of $0.233313 per Series B Preferred Share for a total of $1,073, payable on September 30, 2023[1], to preferred shareholders of record on September 15, 2023.

Items of Note

The adjusted financial results presented in this MD&A exclude the impact of transformation program expenses, costs associated with legacy legal matters, and the amortization of acquired intangibles.

Q2 2023 included $0.4 million of pre-tax transformation costs and other provisions:

- $0.8 million of pre-tax charges ($0.4 million after-tax) related to outsourcing our carrying broker operations to Fidelity.
- $0.4 million of pre-tax recoveries related to legacy legal and other transformation matters ($0.3 million after-tax).

Q1 2023 included $4.1 million of pre-tax transformation costs and other provisions:

- $4.1 million of pre-tax charges for our ongoing transformation ($3.0 million after-tax). These charges are related largely to outsourcing our carrying broker operations to Fidelity.

Q2 2022 included $2.4 million of pre-tax transformation costs and other provisions:

- $2.4 million of pre-tax charges for our ongoing transformation ($1.6 million after-tax). These charges are related largely to developing our growth strategy and outsourcing our carrying broker operations.

Each quarter also includes:

- $3.3 million of pre-tax amortization of acquired intangible assets ($2.4 million after-tax). The amortization arose from intangible assets created on the acquisition of Richardson Wealth. It will continue through 2035.

[1] In the event that the payment date is not a business day, such dividend shall be paid on the next succeeding day that is a business day.

Non-GAAP and Supplemental Financial Measures

In addition to GAAP prescribed measures, we use a variety of non-GAAP financial measures, non-GAAP ratios and supplemental financial measures to assess our performance. We use these non-GAAP financial measures and supplementary financial measures (SFM) because we believe that they provide useful information to investors regarding our performance and results of operations. Readers are cautioned that non-GAAP financial measures, including non-GAAP ratios, and supplemental financial measures often do not have any standardized meaning and therefore may not be comparable to similar measures presented by other issuers. Non-GAAP measures are reported in addition to, and should not be considered alternatives to, measures of performance according to IFRS.

Non-GAAP Financial Measures

A non-GAAP financial measure is a financial measure used to depict our historical or expected future financial performance, financial position or cash flow and, with respect to its composition, either excludes an amount that is included in, or includes an amount that is excluded from, the composition of the most directly comparable financial measure disclosed in our 2022 Annual Financial Statements. A non-GAAP ratio is a financial measure disclosed in the form of a ratio, fraction, percentage, or similar representation and that has a non-GAAP financial measure as one or more of its components.

The primary non-GAAP financial measures (including non-GAAP ratios) used in this document are:

EBITDA

The use of EBITDA is common in the wealth management industry. We believe it provides a more accurate measure of our core operating results, is a proxy for operating cash flow, and is a commonly used basis for enterprise valuation. EBITDA is used to evaluate core operating performance by adjusting net income/(loss) to exclude:

- Interest expense, which we record primarily in connection with term debt and preferred share liability;
- Income tax expense/(benefit);
- Depreciation and amortization expense, which we record primarily in connection with intangible assets, leases, equipment, and leasehold improvements; and
- Amortization in connection with investment advisor transition and loan programs. We view these loans as an effective recruiting and retention tool for advisors, the cost of which is assessed by management upfront when the loan is provided rather than over its term.

Operating Expenses

Operating expenses include:

- Employee compensation and benefits.
- Selling, general, and administrative expenses.
- Transformation costs and other provisions.

These are the expense categories that factor into the EBITDA calculation discussed above.

Fee Revenue

Fee revenue represents the fees that our advisors generate for providing holistic wealth management services and investment advice to their clients. The fees are charged to clients as a percentage of AUA. We often refer to the fees as *recurring fee revenue* because of the nature of the charges and the fact that the revenue tends to be less volatile than other types of revenue such as commissions for trading or placing new issues.

Commissionable Revenue

Commissionable revenue includes Wealth management revenue, commission revenue in connection with the placement of new issues and revenue earned on the sale of insurance products. We use commissionable revenue to evaluate advisor compensation paid on that revenue.

Adjusted Results

In periods that we determine adjusting items have a significant impact on a user's assessment of ongoing business performance, we may present adjusted results in addition to reported results by removing these items from the reported results. Management considers the adjusting items to be outside of our core operating performance. We believe that adjusted results can enhance comparability across reporting periods and provide the reader with a better understanding of how management views core performance. Adjusted results are also intended to provide the user with results that have greater consistency and comparability to those of other issuers.

Adjusted EBITDA Margin

Adjusted EBITDA margin is a non-GAAP ratio defined as Adjusted EBITDA as a percentage of revenue.

Adjusting items in this document include the following:

- Transformation costs and other provisions: charges in connection with the ongoing transformation of our business and other matters. These charges have encompassed a range of transformation initiatives, including refining our ongoing operating model, outsourcing our carrying broker operations, realigning parts of our real estate footprint, and rolling out our new strategy across the Company.
- Amortization of acquired intangible assets: amortization of intangible assets created on the acquisition of Richardson Wealth.

All adjusting items affect reported expenses.

Adjusted Operating Expenses

The following table reconciles our reported operating expenses to adjusted operating expenses:

	For the three months ended			For the six months ended	
($000s)	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Total expenses - reported	51,310	57,254	50,823	108,563	101,922
Interest	3,675	3,511	2,348	7,185	4,488
Advisor loan amortization	3,884	4,201	4,240	8,085	8,252
Depreciation and amortization	6,805	6,895	6,743	13,699	13,277
Operating expenses	36,947	42,647	37,493	79,594	75,905
Transformation costs and other provisions	413	4,101	2,415	4,514	3,958
Adjusted operating expenses	36,533	38,546	35,078	75,080	71,947

Adjusted Operating Expense Ratio

Adjusted operating expense ratio is a non-GAAP ratio defined as adjusted operating expenses divided by gross margin.

Adjusted Net Income

The following table provides a reconciliation of our reported net income/(loss) to adjusted net income/(loss):

	For the three months ended			For the six months ended	
($000s)	June 30, 2023	March 31, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net income (loss) from continuing operations - reported	(1,425)	(5,332)	58	(6,756)	(3,089)
After-tax adjusting items:					
Transformation costs and other provisions	306	3,039	1,554	3,345	2,695
Amortization of acquired intangibles	2,398	2,398	2,398	4,796	4,797
Adjusted net income (loss)	1,279	105	4,010	1,385	4,403
Earnings per common share from continuing operations:					
Basic	(0.20)	(0.51)	(0.11)	(0.71)	(0.55)
Diluted	(0.20)	(0.51)	(0.11)	(0.71)	(0.55)
Adjusted earnings per common share:					
Basic	0.02	(0.08)	0.31	(0.06)	0.24
Diluted	0.01	(0.08)	0.19	(0.06)	0.14

Supplemental Financial Measures

A supplementary financial measure (SFM) is a financial measure that is not reported in our 2022 Annual Financial Statements, and is, or is intended to be, reported periodically to represent historical or expected future financial performance, financial position, or cash flows. The Company's key SFMs disclosed in this document include AUA, recruiting pipeline, and net new and recruited assets. Management uses these measures to assess the operational performance of the Company. These measures do not have any definition prescribed under IFRS and do not meet the definition of a non-GAAP measure or non-GAAP ratio and may differ from the methods used by other companies and therefore these measures may not be comparable to other companies. The composition and explanation of a SFM is provided in this document where the measure is first disclosed if the SFM's labelling is not sufficiently descriptive.

About RF Capital Group Inc.

RF Capital Group Inc. is a TSX-listed (TSX: RCG) wealth management-focused company. Operating under the Richardson Wealth brand, the Company is one of the largest independent wealth management firms in Canada with $36.0 billion in assets under administration (as of July 31, 2023) and 21 offices across the country. The firm's Advisor teams are focused exclusively on providing strategic wealth advice and innovative investment solutions customized for high net worth or ultra-high net worth families and entrepreneurs. The Company is committed to maintaining exceptional fiduciary standards and has earned certification – determined annually – from the Center for Fiduciary Excellence for its Separately Managed and Portfolio Management Account platforms. Richardson Wealth has also been recognized as a Great Place to Work™ for the past three years, a Best Workplace for Women, a Best Workplace in Canada and Ontario, a Best Workplace for Mental Wellness, for Financial Services and Insurance, and for Hybrid Work. For further information, please visit *www.rfcapgroup.com* and *www.RichardsonWealth.com*.

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